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## Canada

### Agricultural Situation

### This Week in Canadian Agriculture, Issue 29 2005

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**Report Highlights:**

\* Stats Canada Releases Production Estimates \* Corn Dispute Looming \* First Half Farm Cash Receipts Show Record Farm Program Payouts \* Grain Revenues Hit by Price Decline \* BSE Impact on Canadian Beef Exports Mitigated by Access to U.S. Market \* What's Next? \* Crop Update

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Includes PSD Changes: No  
Includes Trade Matrix: No  
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[CA]

This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives.

*Disclaimer:* Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

**STATS CANADA RELEASES PRODUCTION ESTIMATES:** Statistics Canada has released its estimate of production of principal field crops for 2005. According to Statscan, total wheat production is expected to decline 4.4% from 25.9 million metric tons (MMT) in 2004 to 24.6 MMT in 2005. Total spring wheat production is forecast to reach 17.8 MMT, a 3.7% decline from 2004. Winter wheat production is also expected to decline. Durum wheat is forecast to increase 2.4% to 5.1 MMT as a result of an increase in harvested area. Barley production is forecast to decline from 13.1 MMT in 2004 to 12.4 MMT in 2005. Manitoba and Alberta both forecasting a decrease in barley production, while Saskatchewan is forecasting an increase of 8.9%. Oat and canola production are both forecast to increase in 2005 to 3.7 MMT and 8.3 MMT respectively. Saskatchewan and Alberta are both expecting an increase in canola production as a result of greater area devoted to canola in 2005. Saskatchewan is also expecting record yields in canola. Manitoba canola production is expected to decline as a result of the adverse weather conditions. Corn and soybean production are forecast to decline as a result of lower estimated yields and harvested areas in both Ontario and Quebec. Corn production is forecast at 8.2 MMT and soybean production is estimated at 2.95 MMT. Flaxseed production is expected to increase significantly with Statscan forecasting a 102% jump in production from 516,900 tons in 2004 to 1.0 MMT in 2005. Increased harvested area and yield combine to produce the increase. Producers in all three Prairie Provinces are expected to have increases in production. Despite the adverse weather conditions, Manitoba's flaxseed production is targeted at 153,200 tons in 2005, up from 132,000 tons in 2004. Saskatchewan flaxseed production is expected to harvest 1.6 million acres, producing 837,500 tons. Alberta flax production is estimated at 55,400 tons, which is a significant increase over 2004's production of only 29,200 tons. The increase in Alberta is as a result of an increase in yield on the same acreage as 2004.

**CORN DISPUTE LOOMING:** According to the *National Post*, Canada is launching a formal probe of U.S. corn exports to Canada. Canadian corn producers have cited that U.S. government subsidies on its corn allows U.S. farmers to dump low-price corn in the Canadian market, driving down prices, displacing Canadian corn in the market and reducing incomes for Canadian corn growers. The corn growers' complaint has been accepted by Ottawa and is being pursued aggressively. Rumors that the corn dispute is linked to the softwood lumber dispute were quickly dismissed. The possibility of duties on U.S. corn is part of a new Canadian corn industry strategy, which would also see Ottawa initiate another case at the WTO to complain about illegal subsidies on U.S. corn. Canada is the fifth largest market for U.S. corn. The possibility of a trade dispute involving corn is causing concern on those industries in Canada who buy corn from the United States. The Canadian Pork Council fears that the dispute could cause harm to their industry. In addition, the ethanol industry in Ontario relies on U.S. corn imports to meet their requirements.

**FIRST HALF FARM CASH RECEIPTS SHOW RECORD FARM PROGRAM PAYOUTS:** Total Canadian farm cash receipts reached a record C\$18.9 billion during the January-June period of 2005, up 4.0% from the first half of 2004 and 9.5% higher than the five-year average for the first six months. So far in 2005, they include a record \$3.4 billion in program payments, an increase of 27.3% over the same period in 2004. Almost 18% of farmers' revenue during the period came from farm support programs. According to Statistics Canada, most of this increase is attributable to the large payments delivered through the Canadian Agricultural Income Stabilization (CAIS) program and the Farm Income Payment program (FIPP). The CAIS program delivered C\$1.1 billion in the first six months of 2005, up more than C\$1 billion from the same period in 2004. The CAIS program, which was introduced in the first quarter of 2004, was designed to help producers protect their farming operations from drops in income. The FIPP delivered C\$722 million in the first six months of 2005. This program was largely targeted at producers directly impacted by the BSE situation. Crop insurance payments increased to \$421 million in the first six months of 2005, up 22.0% from the same period last year. In the first half of 2005, livestock farmers saw revenues climb 7.5% from the

first six months of 2004 to C\$8.9 billion. This gain was mainly due to a rise in the price and marketings of slaughter cattle, and also to a price increase for milk. In contrast, receipts from crop sales fell C\$632 million to C\$6.6 billion, almost 9% below the first half of 2004. Producers of almost all major grains and oilseeds saw their revenues slashed from the same period last year due to a substantial drop in prices for grains and oilseeds.

**GRAIN REVENUES HIT BY PRICE DECLINE:** According to Statistics Canada, farm cash receipts price of corn, barley and wheat dropped significantly in the first half of 2005. The increase in production by the major exporting countries in 2004 continued to drive down prices of grains and oilseeds in the first half of 2005. In addition, high supplies of lower quality grains and oilseeds due to the early frost and wet weather in 2004 also contributed to lower crop revenues. Total wheat revenues dropped 22.4% over the January to June 2005 period compared to the same period in 2004. Wheat (excluding durum) revenues fell 27.8%, while durum revenues actually increased 4.1%. Barley revenues were the hardest hit, tumbling 37.2% in the January to June 2005 time period compared to the first six months of 2004. The decline in wheat (excluding durum) and barley revenues were as a result of lower prices and Canadian Wheat Board (CWB) payments. Corn revenues were 35.4% lower in 2005 as prices fell 25.9% and deliveries dropped 12.9%. Oilseeds fared only slightly better with canola revenues declining by 19.4%, as prices fell 27.9%, while deliveries rose 11.9%. Soybeans were the bright spot in the grains and oilseed sector, with revenues increasing 21.7% in the first half of 2005. Other cereals and oilseeds, specialty crops, and other crops fared better with a 9.1%, 2.2% and 3.0% increase in revenues respectively.

**BSE IMPACT ON CANADIAN BEEF EXPORTS MITIGATED BY ACCESS TO U.S. MARKET:** While the discovery of a case of BSE in Canada in May 2003 was severe to Canadian beef exports in the period immediately following the finding due to the embargo actions of its trading partners, the impact on Canadian beef exports was mitigated by the U.S. action to allow the entry of boneless beef from Canadian cattle under 30 months in early August 2003, less than 3 months after the May 2003 BSE incident. In fact, although volumes were lower, the value of Canadian beef exports to the United States during 2004 at \$1.2 billion was actually 7% greater than during 2002 (pre-BSE). For 2005, prospects are for exports of Canadian beef to the United States to increase to about \$1.4 billion after the list of eligible products was broadened following the July 2005 ruling by the Ninth Circuit Court of Appeals to lift the preliminary injunction that blocked implementation of the USDA's BSE minimal risk regions rule. Many countries still have BSE-related bans on Canadian beef, most notably Japan, South Korea, and Taiwan. For more information on developments in the production and trade of Canadian cattle and beef and post forecasts for 2006 see the Livestock Annual CA5056.

**WHAT'S NEXT?:** As the Canadian government continues to consider its next course of action in the softwood lumber dispute, advice continues to flood in from across the country. The calls for retaliatory action against the United States are at the top of many peoples' lists. Federal ministers, including Industry Minister David Emerson have stated that Canada may have to retaliate against the U.S., through imposing tariffs on U.S. products, even if it causes some pain to Canadian businesses or consumers. Prime Minister Paul Martin also waded into the issue, stating that the position taken by the U.S. is unacceptable and that the decision by the NAFTA panel should be honored. The Prime Minister also indicated that he plans to bring up the issue with President Bush. Finance Minister, Ralph Goodale and Foreign Affairs Minister Pierre Pettigrew indicated that the Canadian government plans to impose penalties on some U.S. imports as soon as the government determines what retaliatory tariffs would serve most effective in garnering the U.S.'s attention. International Trade Minister, Jim Peterson indicated that he would not move on implementing retaliatory tariffs on products until the government got the okay from the WTO. Those industries, which may be impacted by the retaliatory tariffs, were quick to denounce the possible tariffs on their products. The Canadian wine industry, which has been often cited a target for retaliatory tariffs, has stated that any tariffs imposed on California wines would hurt Canada's already ailing hospitality sector and have minimal impact in the United States. Canada's hospitality and tourism industries are trying to recover from the effects of SARS, the NHL labor dispute and the stronger dollar. Tariffs on California wines could possibly lead to layoffs in the hospitality industry. While retaliation has been on the minds of many, others are calling on the Canadian government to get back to the bargaining table and settle the dispute through negotiations.

**CROP UPDATE:** According to Manitoba's provincial department of Agriculture, the harvest is continuing to progress, although producers continue to be plagued by uneven yields and generally poor quality caused by the season's extreme growing conditions. In the *Southwest* region, winter wheat is

80-90% harvested with yields ranging from 25-45 bu/ac. Bushel weight and quality is below average with high level of fusarium. Spring wheat harvested has started with variable yields and quality. Barley harvest has begun, with bushel weights generally below average. In the *Northwest* region, wheat and barley is 10% ripe with swathing advancing slowly and about 5% combined. Approximately 10% of the canola is swathed. In the *Central* region, rain and cool temperatures have slowed the harvest. Wheat quality is No. 2 to sample and generally has very small kernels, dockage is higher than normal and protein is lower than expected. Crop stage is variable, creating harvest problems and higher dockage. Winter wheat seeding is getting started. In the *Eastern* region, harvesting is continuing and confirming the poor yields that were expected. Corn, soybean and late seeded canola looks good, but will need another month to reach maturity. Seeding of winter wheat has started. According the Saskatchewan department of Agriculture, 5 percent of the crop has been combined and a further 13 percent has been swathed or is ready to be straight combined. This is somewhat below the five-year average of 12 percent combined and 16 percent swathed or ready to straight combine at this time of year. The provincial winter wheat crop is 50 percent combined. Rain has slowed harvest in some regions, but helped later seeded crops. Preliminary estimates on the 2005 harvested hard red spring wheat show that grade quality is well above the 10-year crop report average of 53 percent for No.1. Insects, drought stress and wind were the main sources of crop damage during the past week. Lodging continues to be a concern in many areas of the province. According to Alberta's provincial department of Agriculture, the majority of crops in the province are in good to excellent condition. The recent cool, damp weather has delayed crop maturity. Warm temperatures are needed to speed up crop maturity across the province. Yield potentials of most 2005 crops are estimated to be above or much above the 10-year average levels. Spring wheat is rated as 3% poor, 20% fair, 60% good and 17% excellent. Canola is reported as 4% poor, 21% fair, 60% good and 15% excellent. Grasshoppers and gophers have caused crop damage.

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